

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF VASSAR	County TUSCOLA
Audit Date 6/30/05	Opinion Date 9/15/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BERTHIAUME & COMPANY CPAS			
Street Address 60 HARROW LANE	City SAGINAW	State MI	ZIP 48638
Accountant Signature <i>Kenneth A. Berthiaume</i>		Date <i>12-9-05</i>	

CITY OF VASSAR

Tuscola County, Michigan

FINANCIAL STATEMENTS

June 30, 2005

CITY OF VASSAR

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June 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Vassar, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Vassar's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005, on our consideration of the City of Vassar's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vassar's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

September 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

Component Units – The City includes the Economic Development Corporation and the Downtown Development Authority in its report.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short- and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$11,780,491 (net assets), a decrease of \$29,357 from the previous year. Of the \$11,780,491 reported in net assets, \$2,551,740 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- Net assets of our governmental activities decreased \$15,453 and net assets of our business-type activities decreased \$13,904.
- Unrestricted net assets for governmental activities are 40.9 percent of expenses. Unrestricted net assets for business-type activities exceed expenses.
- The General Fund reported a net decrease in fund balance of \$110,896 for the year. This resulted in a year end fund balance of \$561,524. Of this fund balance, \$510,659 is unreserved and undesignated, or 30.75 percent of General Fund expenditures.
- The primary reason for the above-mentioned net decrease in fund balance was due to a council decision in November 2004 to fund a drainage improvement project in Canterbury Subdivision. The project costs were paid for with a transfer of \$102,000 of the General Fund's undesignated fund balance to the Local Street Fund. The decision to transfer this amount was based upon the fact that the proceeds from the sale of lots in the subdivision had not been utilized for any other projects and was available in the City's General Fund reserves.
- Since February 2004, the City Manager and City Treasurer worked to create an investment portfolio of certificates of deposit that has resulted in a marked improvement in the City's interest earnings in fiscal year 2005. The total dollars of interest earnings across all funds for this fiscal year was \$58,787, which is an increase of 141.13% over fiscal year 2004 interest earnings of \$24,380.
- The taxable value of the City's residential property in the current fiscal year was \$39,849,039, following the March Board of Review. This was a 7.5% increase over the 2004 taxable values. While this is a slight increase over the percentage of increase we experienced in previous years, there are only a few vacant parcels remaining in Canterbury Subdivision, so future increases will be less noticeable.

The City as a Whole

The City's combined net assets are \$11,780,491 at June 30, 2005. Business-type activities make up \$7,048,184 and governmental activities make up \$4,732,307 of the total. A comparative condensed statement of net assets and comparative condensed statement of activities are shown below.

City of Vassar – Net Assets

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$11,780,491 (net assets). However, a major portion (72 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a comparative condensed statement of net assets at June 30, 2005 and 2004:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets:				
Current and other assets	\$ 1,612,010	\$ 1,743,233	\$ 1,837,283	\$ 1,793,924
Capital assets	<u>3,485,787</u>	<u>3,149,667</u>	<u>7,031,822</u>	<u>7,269,601</u>
Total assets	<u>5,097,797</u>	<u>4,892,900</u>	<u>8,869,105</u>	<u>9,063,525</u>
Liabilities:				
Long-term liabilities	330,789	91,217	1,797,973	1,963,199
Other liabilities	<u>34,701</u>	<u>79,768</u>	<u>22,948</u>	<u>38,238</u>
Total liabilities	<u>365,490</u>	<u>170,985</u>	<u>1,820,921</u>	<u>2,001,437</u>
Net assets:				
Invested in capital assets, net of related debt	3,196,888	3,079,676	5,256,822	5,334,601
Restricted	565,947	670,961	209,094	207,665
Unrestricted	<u>969,472</u>	<u>971,278</u>	<u>1,582,268</u>	<u>1,519,822</u>
Total net assets	<u>\$ 4,732,307</u>	<u>\$ 4,721,915</u>	<u>\$ 7,048,184</u>	<u>\$ 7,062,088</u>

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes in net assets for 2005 and 2004:

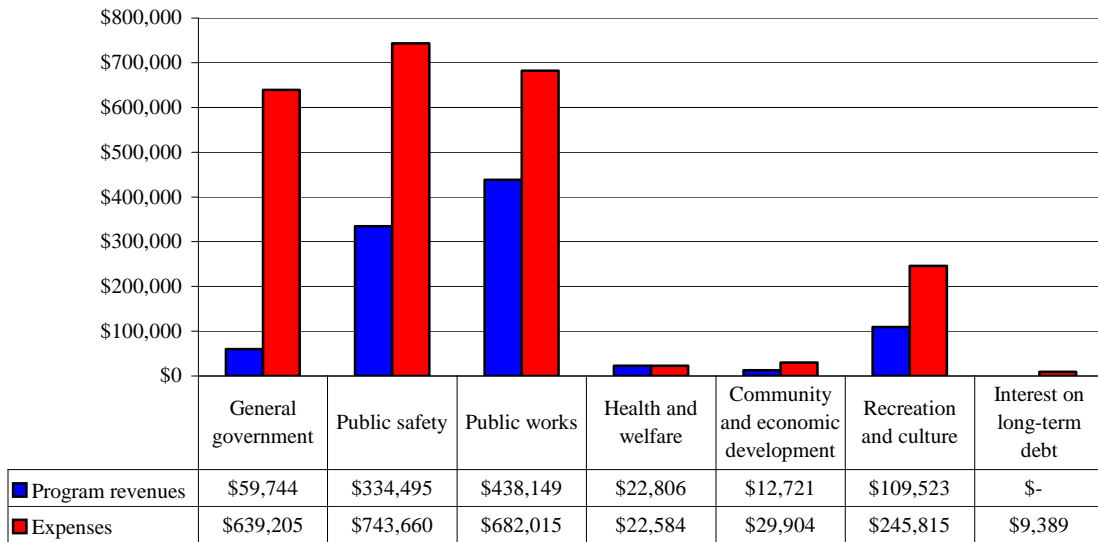
	<i>Governmental Activities</i>		<i>Business-type Activities</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Program revenues				
Charges for services	\$ 441,105	\$ 528,410	\$ 1,002,809	\$ 929,945
Operating grants and contributions	449,953	462,741	59,463	287
Capital grants and contributions	86,380	-	-	-
General revenues				
Property taxes	857,034	859,422	-	-
Other taxes	9,506	8,783	-	-
State revenue sharing - sales tax	375,135	379,269	-	-
Investment earnings	33,255	11,821	30,499	11,988
Miscellaneous	72,246	30,246	-	13,629
Total revenues	2,324,614	2,280,692	1,092,771	955,849
Expenses:				
General government	639,205	562,869	-	-
Public safety	743,660	648,267	-	-
Public works	682,015	728,715	-	-
Health and welfare	22,584	22,584	-	-
Community and economic development	29,904	-	-	-
Recreation and culture	245,815	277,442	-	-
Interest on long-term debt	9,389	3,819	-	-
Sewer	-	-	693,066	672,964
Water	-	-	391,119	364,610
Total expenses	2,372,572	2,243,696	1,084,185	1,037,574
Excess (deficiency) of revenues over expenses before other items	(47,958)	36,996	8,586	(81,725)
Other Items:				
Contributions to principal of permanent funds	2,500	3,750	-	-
Special item - Gain on sale of capital assets	7,515	789	-	-
Transfers	22,490	-	(22,490)	-
	32,505	4,539	(22,490)	-
Change in net assets	(15,453)	41,535	(13,904)	(81,725)
Net assets, beginning of year, as restated	4,747,760	4,680,380	7,062,088	7,143,813
Net assets, end of year	\$ 4,732,307	\$ 4,721,915	\$ 7,048,184	\$ 7,062,088

MANAGEMENT'S DISCUSSION AND ANALYSIS

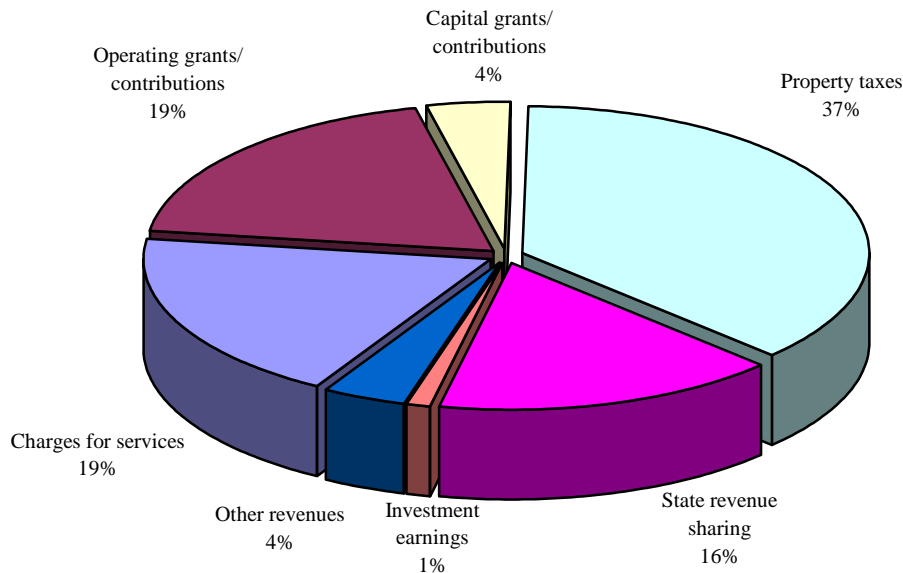
Governmental Activities

For the year ended June 30, 2005, revenues for the City's governmental activities totaled \$2,324,614. Property taxes accounted for 37 percent of the total revenues, or \$857,034. State revenue sharing was 16 percent, or \$375,135; these revenues continue to be a concern as to future funding levels.

Program Revenues and Expenses Governmental Activities



Revenue by Source Governmental Activities

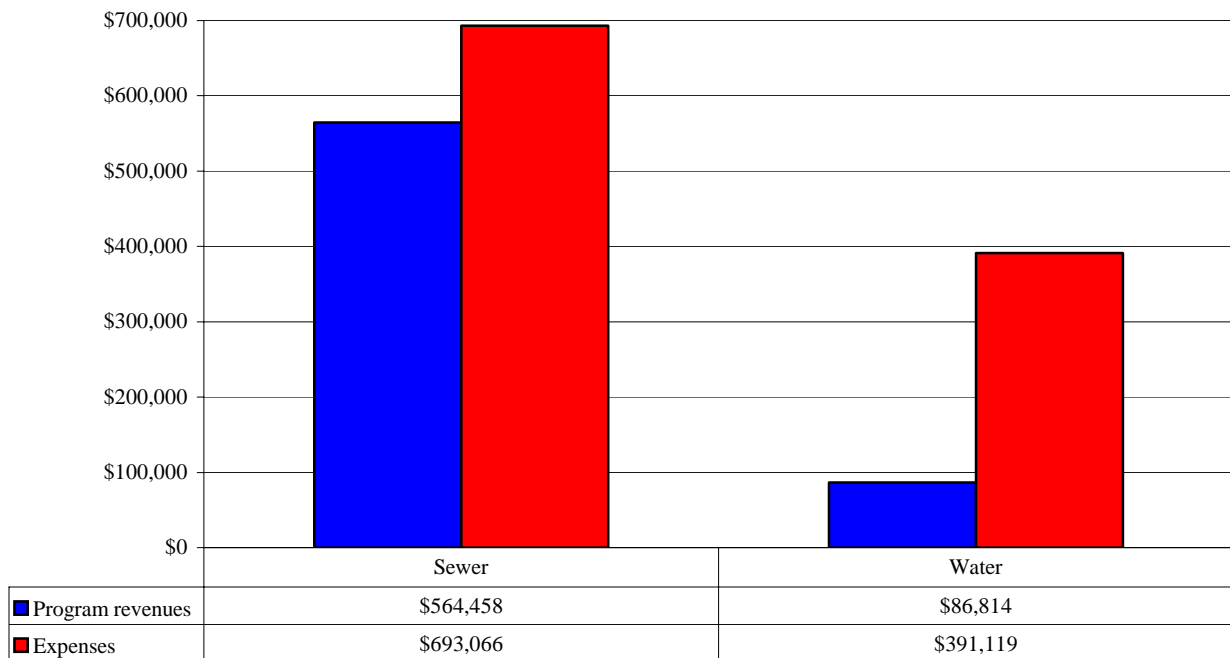


MANAGEMENT'S DISCUSSION AND ANALYSIS

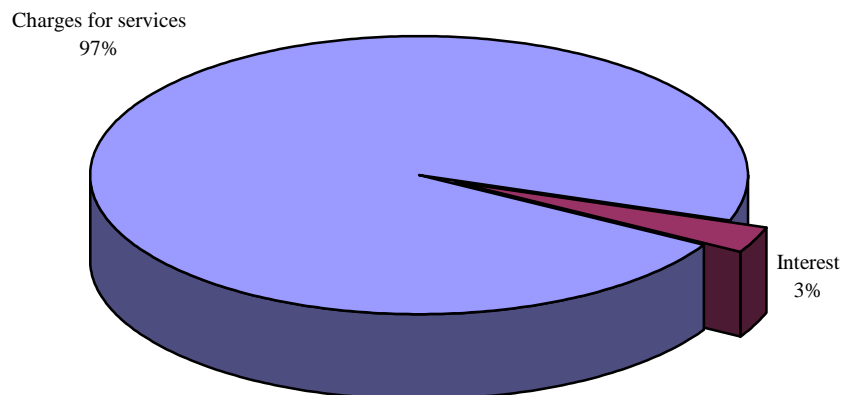
Business-type Activities

For the year ended June 30, 2005, revenues for business-type activities were \$1,092,771. Charges for services were 97 percent of gross revenues, or \$1,002,809.

Program Revenues and Expenses Business-type Activities



Revenue by Source Business-type Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS

The City has two business type-activities: the sewer and water systems. In total, these two activities generated \$1,002,809 in charges for services, and incurred \$1,084,185 in expenses. In addition, general revenues for business-type activities were \$30,499. The City's business-type activities experienced a decrease in net assets of \$13,904 for the year.

Capital Assets and Debt Administration

At the end of the fiscal year 2005, the City has \$17,245,704 invested, before depreciation, in a wide range of capital assets, including land, buildings and improvements, vehicles, furniture and equipment, and sewer and water distribution systems.

Debt of \$288,899 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$1,775,000 is recorded as a liability in the business-type activities in the statement of net assets.

The City's Funds

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities. The City's major governmental funds for 2005 include the General Fund, Major Street Fund, Local Street Fund, and Fire Fund.

The City's governmental funds reported combined fund balance of \$1,380,768 for this year, a decrease of \$218,647 from last year.

General Fund Budgetary Highlights

The City used quarterly budget amendments to monitor revenue and expenditure levels throughout the fiscal year. As a result, any differences between the original and final amended budgets for revenues and expenditures were relatively minor.

There were several factors that contributed to the need for the budget amendments made in fiscal year 2005. Two significant revenue sources were not included in the adopted budget: (a) loan proceeds in the amount of \$162,800 for the purchase of a new street sweeper and (b) miscellaneous revenue from Vassar Public Schools in the amount of \$27,969 for their 50% share of personnel costs associated with the School Resource Officer program.

Personnel expenditure adjustments were necessary following the settlement of union contracts with all three bargaining units in the City. There are two separate I.U.O.E. bargaining units. The contracts with this union are in effect until June 30, 2007. The P.O.A.M. contract will remain in effect until June 30, 2008. The administration realizes that future budgets will be impacted by the benefits that were implemented in these contracts and will be prepared to adopt a budget that accounts for these changes. Yet, these costs continue to be unpredictable when adopting the budget, due to the fluctuations in the rates of increase to benefit costs in recent years. The primary areas of change in fiscal year 2005 were as follows:

- The adoption of an FAC-3 benefit in the Municipal Employees' Retirement System required an increase in employer contributions into the retirement plan based on a supplemental valuation provided by MERS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- A change in health insurance benefits was approved in the contracts, and extended to all employees covered by the City. This resulted in increased premiums that were not included in the original adopted budget.
- City-funded medical deductible reimbursements to employees were eliminated with the adoption of the new PPO plan.
- Health-Waiver compensation to employees whom opt-out of the City's health insurance plan had been growing annually due to a formula put in place in the early 1990's. This formula was changed in the negotiation process and has created a cap on the amount that will be paid out to employees in the future.

Economic Factors

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In fiscal year 2005, the City administration made several adjustments to the fee schedule to allow the City to recoup some of our costs when providing inspections and other services to the public. This fee schedule is reviewed on an annual basis to ensure that revenue will offset expenditures when providing work for others.

The economic trend of rising health care costs, fuel and energy costs, liability insurance premiums and employer retirement contributions continues to be of concern for the City's financial future. These increasing costs will ultimately impact other areas of the City's budget if they continue to rise faster than the rate of inflation.

We are continuing to plan for the long-term financial needs of the City by monitoring investments, projected revenue amounts and evaluating capital improvement needs and personnel costs. We will continue to balance the budgets through controls over spending, while still providing the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Scott Adkins, City Manager, 287 E. Huron Avenue, Vassar, Michigan 48768.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2005

	<i>Primary Government</i>			<i>Component</i>
	<i>Governmental</i>	<i>Business-type</i>		<i>Units</i>
	<i>Activities</i>	<i>Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 1,178,582	\$ 1,420,553	\$ 2,599,135	\$ 144,088
Receivables	412,307	131,782	544,089	20,338
Internal balances	(2,377)	2,377	-	-
Inventory	2,864	-	2,864	-
Prepaid expenses	20,634	4,761	25,395	-
Restricted cash and cash equivalents	-	209,094	209,094	-
Capital assets:				
Nondepreciable capital assets	523,500	43,009	566,509	44,500
Depreciable capital assets, net	2,962,287	6,988,813	9,951,100	-
Other assets	-	68,716	68,716	-
Total assets	<u>5,097,797</u>	<u>8,869,105</u>	<u>13,966,902</u>	<u>208,926</u>
Liabilities:				
Accounts payable and accrued expenses	34,701	22,948	57,649	3,735
Long-term liabilities:				
Due within one year	37,943	160,000	197,943	-
Due in more than one year	<u>292,846</u>	<u>1,637,973</u>	<u>1,930,819</u>	<u>-</u>
Total liabilities	<u>365,490</u>	<u>1,820,921</u>	<u>2,186,411</u>	<u>3,735</u>
Net assets:				
Invested in capital assets, net of related debt	3,196,888	5,256,822	8,453,710	44,500
Restricted for:				
Debt service	-	192,656	192,656	-
Streets	451,820	-	451,820	-
Nonexpendable cemetery principal	114,127	-	114,127	-
Replacement	-	16,438	16,438	-
Unrestricted	<u>969,472</u>	<u>1,582,268</u>	<u>2,551,740</u>	<u>160,691</u>
Total net assets	<u>\$ 4,732,307</u>	<u>\$ 7,048,184</u>	<u>\$ 11,780,491</u>	<u>\$ 205,191</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

		<i>Program Revenues</i>			<i>Net (Expense) Revenue</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>	
	<i>Expenses</i>				
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 639,205	\$ 56,446	\$ 3,298	\$ -	\$ (579,461)
Public safety	743,660	182,750	65,365	86,380	(409,165)
Public works	682,015	95,665	342,484	-	(243,866)
Health and welfare	22,584	22,806	-	-	222
Community and economic development	29,904	12,221	500	-	(17,183)
Recreation and culture	245,815	71,217	38,306	-	(136,292)
Interest on long-term debt	9,389	-	-	-	(9,389)
Total governmental activities	<u>2,372,572</u>	<u>441,105</u>	<u>449,953</u>	<u>86,380</u>	<u>(1,395,134)</u>
<i>Business-type activities:</i>					
Sewer	693,066	546,445	18,013	-	(128,608)
Water	391,119	456,364	41,450	-	106,695
Total business-type activities	<u>1,084,185</u>	<u>1,002,809</u>	<u>59,463</u>	<u>-</u>	<u>(21,913)</u>
Total primary government	<u>\$ 3,456,757</u>	<u>\$ 1,443,914</u>	<u>\$ 509,416</u>	<u>\$ 86,380</u>	<u>\$ (1,417,047)</u>
COMPONENT UNITS:					
Downtown development authority	\$ 38,140	\$ 20,000	\$ 115	\$ 6,500	\$ (11,525)
Economic development corporation	105,988	-	-	-	(105,988)
Total component units	<u>\$ 144,128</u>	<u>\$ 20,000</u>	<u>\$ 115</u>	<u>\$ 6,500</u>	<u>\$ (117,513)</u>

continued

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Units</i>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Units</u>
Changes in net assets				
Net (Expense) Revenue	\$ (1,395,134)	\$ (21,913)	\$ (1,417,047)	\$ (117,513)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	857,034	-	857,034	81,517
Payment in lieu of property taxes	1,814	-	1,814	-
Franchise taxes	7,692	-	7,692	-
Grants and contributions not restricted to specific programs	375,135	-	375,135	-
Unrestricted investment earnings	33,255	30,499	63,754	1,819
Miscellaneous	72,246	-	72,246	-
Contributions to principal of permanent funds	2,500	-	2,500	-
Special item - Gain on sale of capital asset	7,515	-	7,515	25,001
Transfers	<u>22,490</u>	<u>(22,490)</u>	<u>-</u>	<u>-</u>
Total general revenues	1,379,681	8,009	1,387,690	108,337
Change in net assets	(15,453)	(13,904)	(29,357)	(9,176)
Net assets, beginning of year, as restated	<u>4,747,760</u>	<u>7,062,088</u>	<u>11,809,848</u>	<u>214,367</u>
Net assets, end of year	<u>\$ 4,732,307</u>	<u>\$ 7,048,184</u>	<u>\$ 11,780,491</u>	<u>\$ 205,191</u>

CITY OF VASSAR

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2005

		<i>Major</i>	<i>Local</i>		<i>Nonmajor</i>	<i>Total</i>
	<i>General</i>	<i>Street</i>	<i>Street</i>	<i>Fire</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Funds</i>	<i>Funds</i>
Assets:						
Cash and cash equivalents	\$ 388,434	\$ 89,068	\$ 310,278	\$ 134,262	\$ 223,211	\$ 1,145,253
Taxes receivable	16,440	-	-	-	-	16,440
Accounts receivable	6,503	-	-	-	3,255	9,758
Special assessments receivable	-	-	4,552	-	-	4,552
Notes receivable	44,886	-	-	83,239	19,672	147,797
Interest receivable	1,180	-	3,532	-	1,110	5,822
Due from other governmental units	160,736	44,035	16,414	240	6,513	227,938
Due from other funds	1,198	-	-	-	2,079	3,277
Inventory	2,864	-	-	-	-	2,864
Prepaid expenditures	14,237	2,865	2,865	321	346	20,634
Total assets	\$ 636,478	\$ 135,968	\$ 337,641	\$ 218,062	\$ 256,186	\$ 1,584,335
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable						
and accrued expenses	\$ 9,692	\$ 2,659	\$ 12,201	\$ -	\$ 636	\$ 25,188
Due to other governmental units	3,936	-	-	-	-	3,936
Due to other funds	-	-	2,377	-	3,277	5,654
Deferred revenue	61,326	-	4,552	83,239	19,672	168,789
Total liabilities	74,954	2,659	19,130	83,239	23,585	203,567
Fund balances:						
Reserved for:						
Inventory	2,864	-	-	-	-	2,864
Prepaid expenditures	14,237	2,865	2,865	321	346	20,634
Nonexpendable cemetery						
principal	-	-	-	-	114,127	114,127
Unreserved:						
Designated, reported in:						
General fund	33,764	-	-	-	-	33,764
Undesignated, reported in:						
General fund	510,659	-	-	-	-	510,659
Special revenue funds	-	130,444	315,646	134,502	118,128	698,720
Total fund balances	561,524	133,309	318,511	134,823	232,601	1,380,768
Total liabilities and						
fund balances	\$ 636,478	\$ 135,968	\$ 337,641	\$ 218,062	\$ 256,186	\$ 1,584,335

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2005

Total fund balances for governmental funds \$ 1,380,768

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	5,157,359	
Less accumulated depreciation	<u>(1,671,572)</u>	3,485,787

Interest payable in the governmental activities are not payable from
current resources and therefore are not reported in the governmental
funds. (5,577)

Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities. 168,789

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Loans payable	(288,899)	
Compensated absences payable	<u>(41,890)</u>	(330,789)

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets. 33,329

Net assets of governmental activities \$ 4,732,307

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Fire Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues:						
Property taxes	\$ 866,309	\$ -	\$ -	\$ -	\$ -	\$ 866,309
Licenses and permits	10,677	-	-	-	-	10,677
Federal grants	13,700	-	-	38,300	-	52,000
State grants	378,322	158,958	60,187	-	40,579	638,046
Contributions from other units	5,232	48,073	23,918	108,746	-	185,969
Charges for services	362,935	-	-	31	42,272	405,238
Fines and forfeits	21,746	-	-	-	3,428	25,174
Interest and rents	20,086	938	7,414	6,080	20,277	54,795
Other revenue	<u>130,968</u>	<u>22,384</u>	<u>778</u>	<u>1,043</u>	<u>66,128</u>	<u>221,301</u>
Total revenues	<u>1,809,975</u>	<u>230,353</u>	<u>92,297</u>	<u>154,200</u>	<u>172,684</u>	<u>2,459,509</u>
Expenditures:						
Current						
General government	499,514	-	-	-	77,489	577,003
Public safety	572,949	-	-	101,355	3,740	678,044
Public works	239,319	191,525	219,135	-	47,195	697,174
Health and welfare	22,584	-	-	-	-	22,584
Community and economic development	3,619	-	-	-	12,220	15,839
Recreation and culture	25,000	-	-	-	240,916	265,916
Other	24,425	-	-	-	-	24,425
Capital outlay	231,508	33,200	126,493	239,229	19,815	650,245
Debt service						
Principal	38,523	-	-	-	-	38,523
Interest and fees	<u>3,037</u>	<u>-</u>	<u>-</u>	<u>2,355</u>	<u>-</u>	<u>5,392</u>
Total expenditures	<u>1,660,478</u>	<u>224,725</u>	<u>345,628</u>	<u>342,939</u>	<u>401,375</u>	<u>2,975,145</u>
Excess (deficiency) of revenues over expenditures	<u>149,497</u>	<u>5,628</u>	<u>(253,331)</u>	<u>(188,739)</u>	<u>(228,691)</u>	<u>(515,636)</u>
Other financing sources (uses):						
Proceeds from loans	162,800	-	-	111,700	-	274,500
Transfers in	9,114	33,535	115,000	75,000	232,791	465,440
Transfers out	<u>(432,307)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,643)</u>	<u>(442,950)</u>
Total other financing sources and (uses)	<u>(260,393)</u>	<u>33,535</u>	<u>115,000</u>	<u>186,700</u>	<u>222,148</u>	<u>296,990</u>
Net change in fund balances	(110,896)	39,163	(138,331)	(2,039)	(6,543)	(218,646)
Fund balances, beginning of year	<u>672,420</u>	<u>94,146</u>	<u>456,842</u>	<u>136,862</u>	<u>239,144</u>	<u>1,599,414</u>
Fund balances, end of year	<u>\$ 561,524</u>	<u>#####</u>	<u>\$318,511</u>	<u>\$134,823</u>	<u>\$ 232,601</u>	<u>\$ 1,380,768</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (218,647)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	581,030	
Less depreciation expense	<u>(244,910)</u>	336,120

Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds.	110,300
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Loan proceeds are revenue in governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.	(274,500)
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Repayments of principal on capital leases and contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.	38,523
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(3,595)	
Change in accrued interest on leases and loans payable	<u>(3,997)</u>	(7,592)

The net revenue (expense) of the internal service fund is reported with governmental activities.	<u>343</u>
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Change in net assets of governmental activities \$ (15,453)

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

June 30, 2005

				<i>Governmental</i>
				<i>Activities</i>
				<i>Internal</i>
				<i>Service Fund</i>
	<i>Sewer</i>	<i>Water</i>		<i>Self Insurance</i>
	<i>Fund</i>	<i>Fund</i>	<i>Total</i>	<i>Fund</i>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 626,171	\$ 794,382	\$ 1,420,553	\$ 33,329
Accounts receivable	52,546	24,849	77,395	-
Special assessments receivable	16,781	31,164	47,945	-
Interest receivable	2,170	4,272	6,442	-
Due from other funds	1,839	2,593	4,432	-
Prepaid expenses	3,189	1,572	4,761	-
Total current assets	702,696	858,832	1,561,528	33,329
Noncurrent assets:				
Restricted cash and cash equivalents	124,399	84,695	209,094	-
Capital assets:				
Nondepreciable capital assets	33,422	9,587	43,009	-
Depreciable capital assets, net	5,453,534	1,535,279	6,988,813	-
Deferred financing costs	29,400	39,316	68,716	-
Total noncurrent assets	5,640,755	1,668,877	7,309,632	-
Total assets	6,343,451	2,527,709	8,871,160	33,329
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	13,099	9,849	22,948	-
Due to other funds	242	1,813	2,055	-
Current portion of long-term debt	90,234	69,766	160,000	-
Total current liabilities	103,575	81,428	185,003	-
Noncurrent liabilities:				
Compensated absences payable	10,994	11,979	22,973	-
Long-term debt	910,802	704,198	1,615,000	-
Total noncurrent liabilities	921,796	716,177	1,637,973	-
Total liabilities	1,025,371	797,605	1,822,976	-
Net assets:				
Invested in capital assets, net of related debt	4,485,920	770,902	5,256,822	-
Restricted for:				
Debt service	124,399	84,695	209,094	-
Replacement	16,438	-	16,438	-
Unrestricted	707,761	874,507	1,582,268	33,329
Total net assets	\$ 5,334,518	\$ 1,730,104	\$ 7,064,622	\$ 33,329

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2005

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>			<i>Internal Service Fund Self Insurance Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	
Operating revenues:				
Charges for services	\$ 536,564	\$ 437,392	\$ 973,956	\$ -
Penalties	-	12,165	12,165	-
Other	9,881	6,807	16,688	-
Total operating revenues	546,445	456,364	1,002,809	-
Operating expenses:				
Personnel	189,819	91,154	280,973	-
Fringe benefits	52,001	17,305	69,306	-
Supplies	17,581	24,269	41,850	-
Contracted services	3,268	1,068	4,336	-
Administrative expense	20,000	15,000	35,000	-
Telephone	3,599	9,531	13,130	-
Fees and permits	3,261	1,266	4,527	-
Conference and travel	702	199	901	-
Insurance	16,352	3,199	19,551	204
Utilities	60,406	43,613	104,019	-
Repair and maintenance	37,618	42,120	79,738	-
Equipment rental	3,532	18,637	22,169	-
Other services and supplies	3,663	23,330	26,993	-
Depreciation	224,947	54,974	279,921	-
Total operating expenses	636,749	345,665	982,414	204
Operating income (loss)	(90,304)	110,699	20,395	(204)
Non-operating revenues (expenses):				
State grants	-	7,997	7,997	-
Interest income	13,728	16,771	30,499	547
Special assessments	18,013	33,453	51,466	-
Interest expense	(56,317)	(45,454)	(101,771)	-
Total non-operating revenues (expenses)	(24,576)	12,767	(11,809)	547
Net income (loss) before operating transfers	(114,880)	123,466	8,586	343
Operating transfers:				
Transfer to other funds	(22,490)	-	(22,490)	-
Net income (loss)	(137,370)	123,466	(13,904)	343
Net assets, beginning of year	5,455,450	1,606,638	7,062,088	32,986
Net assets, end of year	\$ 5,318,080	\$ 1,730,104	\$ 7,048,184	\$ 33,329

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>			<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Self Insurance Fund</i>
Cash flows from operating activities:				
Cash received from customers	\$ 522,362	\$ 431,991	\$ 954,353	\$ -
Cash received from interfund services	(1,839)	(2,593)	(4,432)	-
Cash payments to employees	(195,702)	(90,497)	(286,199)	-
Cash payments to suppliers for goods and services	(225,917)	(210,043)	(435,960)	(204)
Net cash provided (used) by operating activities	98,904	128,858	227,762	(204)
Cash flows from non-capital financing activities:				
Operating transfers out	(22,490)	-	(22,490)	-
Net cash used by capital financing activities	(22,490)	-	(22,490)	-
Cash flows from capital and related financing activities:				
State grants	-	7,997	7,997	-
Special assessments	18,013	33,453	51,466	-
Acquisition and construction of capital assets	(26,316)	(15,826)	(42,142)	-
Principal payments	(90,234)	(69,766)	(160,000)	-
Interest paid	(56,317)	(45,454)	(101,771)	-
Amortization of deferred financing costs	3,404	4,544	7,948	-
Net cash used by capital and related financing activities	(151,450)	(85,052)	(236,502)	-
Cash flows from investing activities:				
Interest received	13,728	16,771	30,499	547
Net cash provided by investing activities	13,728	16,771	30,499	547
Net increase (decrease) in cash and cash equivalents	(61,308)	60,577	(731)	343
Cash and cash equivalents, beginning of year	811,878	818,500	1,630,378	32,986
Cash and cash equivalents, end of year	\$ 750,570	\$ 879,077	\$ 1,629,647	\$ 33,329

continued

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS, CONTINUED
 Year Ended June 30, 2005

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>			<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Self Insurance Fund</i>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (90,304)	\$ 110,699	\$ 20,395	\$ (204)
Adjustments:				
Depreciation	224,947	54,974	279,921	-
Change in assets and liabilities:				
Accounts receivable	(6,316)	9,879	3,563	-
Special assessments receivable	(16,781)	(31,164)	(47,945)	-
Interest receivable	(986)	(3,088)	(4,074)	-
Due from other funds	(1,839)	(2,593)	(4,432)	-
Prepaid expenses	(322)	(883)	(1,205)	-
Accounts payable and accrued expenses	(3,854)	(11,436)	(15,290)	-
Due to other funds	242	1,813	2,055	-
Compensated absences payable	(5,883)	657	(5,226)	-
Net cash provided (used) by operating activities	<u>\$ 98,904</u>	<u>\$ 128,858</u>	<u>\$ 227,762</u>	<u>\$ (204)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2005

	<i>Private Purpose Trust Funds</i>	<i>Agency Funds</i>	<i>Total</i>
Assets:			
Cash and cash equivalents	\$ 2,979	\$ 17,396	\$ 20,375
Accounts receivable	<u>-</u>	<u>48</u>	<u>48</u>
Total assets	<u>2,979</u>	<u>17,444</u>	<u>20,423</u>
Liabilities:			
Accounts payable	-	16,970	16,970
Due to other governmental units	<u>-</u>	<u>474</u>	<u>474</u>
Total liabilities	<u>-</u>	<u>17,444</u>	<u>17,444</u>
Net Assets:			
Held in trust	<u>2,979</u>	<u>-</u>	<u>2,979</u>
Total net assets	<u>\$ 2,979</u>	<u>\$ -</u>	<u>\$ 2,979</u>

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2005

	<i>Private Purpose Trust Funds</i>
Additions:	
Investment income	\$ 61
Contributions	1,050
Contributions from General Fund	<u>500</u>
Total additions	<u>1,611</u>
Deductions:	
Supplies	3,994
Capital outlay	<u>1,000</u>
Total deductions	<u>4,994</u>
Net increase (decrease)	(3,383)
Net assets, beginning of year	<u>6,362</u>
Net assets, end of year	<u><u>\$ 2,979</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vassar was incorporated in 1945 and is located in Tuscola County, Michigan. The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a five member City Council elected by the community at large. The legislative body selects from among its members the Mayor and appoints a City Manager to administer the affairs of the City. The City provides the following services to approximately 2,800 residents as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and culture, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Vassar conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units column in the government-wide financial statements includes the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Economic Development Corporation - The members of the governing board of the Economic Development Corporation are appointed by the City Council.

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Major Street Fund – The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

Local Street Fund – The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

Fire Fund – The Fire Fund is used to account for the revenues received for the purpose of providing fire protection.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

NOTES TO FINANCIAL STATEMENTS

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Assets, Liabilities, and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools, if any, to be cash equivalents.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Expenses – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2003. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	3-25 years
Furniture and other equipment	3-15 years

Compensated Absences – It is the City’s policy to permit employees to accumulate earned but unused sick days. Depending on whether the employee is union, non-union, full-time or part-time and on hire date, the employee can accumulate from 45 to 180 sick days. Upon retirement or leaving the employment of the City, union employees are paid for one half of their accumulated days, while non-union employees are paid for all of their accumulated days, subject to certain limitations. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on July 1 and are due without penalty on or before July 31. The City bills and collects its own property taxes as well as those of Vassar Public Schools, Tuscola Intermediate School District and Tuscola County. Collections of these taxes and remittance of them to the entities are accounted for in the tax collection agency fund. City property tax revenues are recognized in the general fund.

The 2004 taxable valuation of the City totaled \$49,611,339, on which ad valorem taxes levied consisted of 17.5000 mills for the City’s operating purposes.

The delinquent real property taxes of the City are purchased by Tuscola County.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency and Internal Service Funds.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at June 30, 2005 are included in the statement of net assets under the following categories:

	<i>Governmental</i>	<i>Business-type</i>	<i>Total Primary</i>	<i>Component</i>
	<u>Activities</u>	<u>Activities</u>	<u>Government</u>	<u>Units</u>
Cash and cash equivalents	\$ 1,178,582	\$ 1,420,553	\$ 2,599,135	\$ 144,088
Restricted cash and cash equivalents	-	209,094	209,094	-
	<u>\$ 1,178,582</u>	<u>\$ 1,629,647</u>	<u>\$ 2,808,229</u>	<u>\$ 144,088</u>

Deposits:

The breakdown between deposits and investments for the City is as follows:

	<i>Primary</i>	<i>Component</i>
	<u>Government</u>	<u>Units</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 2,431,360	\$ 144,088
Investments in Governmental Operating Money Market Funds	376,312	-
Petty cash and cash on hand	557	-
Total	<u>\$ 2,808,229</u>	<u>\$ 144,088</u>

The deposits of the primary government and component units were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$3,118,632, of which \$697,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	<i>Category</i>			<i>Reported Amount (Fair Value)</i>
	<i>1</i>	<i>2</i>	<i>3</i>	
Primary government:				
Investments not subject to categorization:				
Bank One - Governmental Operating				
Money Market Fund				\$ 376,312

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

The authorizing ordinance for the 1998 Refunding Bonds requires the establishment and maintenance of various reserve funds as follows:

Operation and Maintenance Fund - The City is required to set aside a sum sufficient to provide for the payment of the next month's administration and operation expenses.

Bond and Interest Redemption Fund - The City is required to set aside a sum sufficient to provide for the payment of the current bond principal and interest payment less accrued interest available in the Redemption Fund.

Replacement Fund - The City is required to set aside money in a Replacement Fund, as the Council may deem advisable.

Improvement Fund - The City is required to set aside money in an Improvement Fund, as the Council may deem advisable.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

The official statement for the 1998 Refunding Bonds states the following:

Bond Reserve Account: Upon the issuance of the Bonds, the bond reserve account established with respect to the Refunded Bonds (the "Bond Reserve Account") will be equal to the lesser of (1) the maximum annual debt service due on the Bonds, (2) 125% of the average annual debt service requirements on the Bonds, or (3) 10% of the principal amount of the Bonds. Except as provided in the Ordinance, the monies credited to the Bond Reserve Account shall be used solely for the payment of the principal and interest on the Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use monies credited to the Bond Reserve Account for such payment, then the monies so used shall be replaced from the Net Revenues first received thereafter which are not required for current principal and interest requirements. If Additional Bonds from time to time are issued, each ordinance authorizing the Additional Bonds shall provide for additional deposits to the Bond Reserve Account to be made in an amount that will result in the Bond Reserve Account being equal to the lesser of (1), (2), or (3) above after issuance of the Additional Bonds.

As of June 30, 2005 the City has set aside sufficient amounts as follows:

	<i>Business-type Activities</i>		
	<i>Sewer</i>	<i>Water</i>	<i>Total</i>
Restricted cash and cash equivalents:			
Bond Reserve	\$ 107,878	\$ 83,407	\$ 191,285
Bond and Interest Redemption	83	1,288	1,371
Replacement Reserve	16,438	-	16,438
	<u>\$ 124,399</u>	<u>\$ 84,695</u>	<u>\$ 209,094</u>

The required minimum amount for the bond reserve is 125% of the average annual debt service requirement. The total bond reserve amount was deposited upon issuance of the bonds. The City has sufficient assets in both funds to fund the reserves.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental activities was as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 523,500	\$ -	\$ -	\$ 523,500
Depreciable capital assets				
Buildings and improvements	1,276,440	-	-	1,276,440
Furniture and equipment	987,261	231,306	(5,703)	1,224,270
Infrastructure	1,354,256	116,188	-	1,470,444
Vehicles	440,575	233,536	-	674,111
Total depreciable capital assets	4,058,532	581,030	(5,703)	4,645,265
Accumulated depreciation	(1,432,365)	(244,910)	5,703	(1,682,978)
Depreciable capital assets, net	2,626,167	336,120	-	2,962,287
Governmental activities, capital assets, net	<u>\$ 3,149,667</u>	<u>\$ 336,120</u>	<u>\$ -</u>	<u>\$ 3,485,787</u>

Capital assets activity of the City's business-type activities was as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 43,009	\$ -	\$ -	\$ 43,009
Depreciable capital assets				
Equipment	448,818	42,140	-	490,958
Land improvements	32,637	-	-	32,637
Sewer mains	1,223,884	-	-	1,223,884
Sewer treatment plant	7,721,379	-	-	7,721,379
Water buildings and tower	518,952	-	-	518,952
Water mains	2,046,120	-	-	2,046,120
Total depreciable capital assets	11,991,790	42,140	-	12,033,930
Accumulated depreciation	(4,765,198)	(279,919)	-	(5,045,117)
Depreciable capital assets, net	7,226,592	(237,779)	-	6,988,813
Business-type activities, capital assets, net	<u>\$ 7,269,601</u>	<u>\$ (237,779)</u>	<u>\$ -</u>	<u>\$ 7,031,822</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Capital assets activity of the City's component units was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Component units:				
Nondepreciable capital assets				
Land	\$ 118,000	\$ 6,500	\$ (80,000)	\$ 44,500
Component units, capital assets, net	<u>\$ 118,000</u>	<u>\$ 6,500</u>	<u>\$ (80,000)</u>	<u>\$ 44,500</u>

Depreciation expense was charged to programs of the governmental and business-type activities as follows:

Governmental activities:	
General government	\$ 119,537
Public safety	66,104
Public works	23,601
Recreation and culture	<u>35,668</u>
Total governmental activities	<u>\$ 244,910</u>
Business-type activities:	
Sewer	\$ 224,946
Water	<u>54,973</u>
Total business-type activities	<u>\$ 279,919</u>

NOTE 6: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Personal property taxes	\$ 16,440	\$ -
Special assessments	4,552	-
Notes/Loans	<u>147,797</u>	<u>-</u>
Total	<u>\$ 168,789</u>	<u>\$ -</u>

NOTE 7: LONG-TERM LIABILITIES

The City may issue bonds, loans, notes and other contractual commitments to provide for the acquisition

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

Long-term liabilities at June 30, 2005 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Payments</u>	<u>Original Issue Amount</u>	<u>Balance at Year-End</u>
<u>Governmental Activities</u>					
<i>Notes:</i>					
Rural Development - Fire truck	9/01/05-9/01/19	4.75%	6,000-8,700	111,700	111,700
<i>Agreements:</i>					
Municipal purchase - Hall improvements	11/21/04	5.50%	16,290	76,949	-
Capital lease purchase - Crown Victoria	8/30/04	5.90%	15,615	46,897	-
Installment purchase - Expedition	4/16/05-4/16/07	5.7461%	6,618-7,400	27,274	14,398
Installment purchase - Street Sweeper	10/28/05-10/28/10	3.30%	24,945-29,434	162,800	162,800
<u>Business-type Activities</u>					
<i>Revenue Bonds:</i>					
1998 Series - Water and Sewer Systems	4/1/05-4/1/27	4.6-5.25%	45,000-180,000	2,775,000	1,775,000

The following is a summary of long-term liabilities transactions for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Agreements and Notes					
Municipal purchase-Hall	\$ 16,290	\$ -	\$ (16,290)	\$ -	\$ -
Capital lease purchase-Police car	15,615	-	(15,615)	-	-
Installment purchase-Expedition	21,016	-	(6,618)	14,398	6,998
Installment purchase-Street sweeper	-	162,800	-	162,800	24,945
Rural Development note-Fire truck	-	111,700	-	111,700	6,000
Compensated Absences	38,296	3,594	-	41,890	-
Total governmental activities					
- long-term liabilities	<u>\$ 91,217</u>	<u>\$ 278,094</u>	<u>\$ (38,523)</u>	<u>\$ 330,788</u>	<u>\$ 37,943</u>
Business-type activities:					
Revenue Bonds					
1998 Issue	\$ 1,935,000	\$ -	\$ (160,000)	\$ 1,775,000	\$ 160,000
Compensated Absences	28,199	1,290	(6,516)	22,973	-
Total business-type activities					
- long-term liabilities	<u>\$ 1,963,199</u>	<u>\$ 1,290</u>	<u>\$ (166,516)</u>	<u>\$ 1,797,973</u>	<u>\$ 160,000</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Annual debt service requirements to maturity for the above long-term liabilities are as follows:

Year Ended	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 37,943	\$ 11,444	\$ 49,387	\$ 160,000	\$ 88,193	\$ 248,193
2007	40,180	9,899	50,079	175,000	80,832	255,832
2008	33,644	8,277	41,921	170,000	72,783	242,783
2009	34,537	7,052	41,589	170,000	64,792	234,792
2010	35,459	5,797	41,256	180,000	56,633	236,633
2011-2015	66,435	15,168	81,603	250,000	213,437	463,437
2016-2020	40,700	4,692	45,392	230,000	150,856	380,856
2021-2025	-	-	-	310,000	84,788	394,788
2026-2027	-	-	-	130,000	10,237	140,237
	<u>\$ 288,898</u>	<u>\$ 62,329</u>	<u>\$ 351,227</u>	<u>\$ 1,775,000</u>	<u>\$ 822,551</u>	<u>\$ 2,597,551</u>

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
Receivables:		
Property taxes	\$ 16,440	\$ -
Accounts	9,758	77,395
Special assessments	4,552	47,945
Notes	147,797	6,442
Interest	5,822	-
Intergovernmental	<u>227,938</u>	<u>-</u>
Total receivables	<u>\$ 412,307</u>	<u>\$ 131,782</u>
Accounts payable and accrued expenses:		
Accounts	\$ 25,188	\$ 900
Interest	5,577	22,048
Intergovernmental	<u>3,936</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 34,701</u>	<u>\$ 22,948</u>

NOTE 9: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2005 is as follows:

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

<i>Receivable Fund</i>	<i>Payable Fund</i>	<i>Amount</i>
General Fund	Flood Mitigation HGMP Fund	\$ 1,198
Sewer Fund	Local Street Fund	26
Water Fund	Local Street Fund	2,351
Sewer Fund	Water Fund	1,813
Water Fund	Sewer Fund	242
Cemetery Operating Fund	Cemetery Perpetual Care Fund	<u>2,079</u>
		<u>\$ 7,709</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>	<i>Amount</i>
General Fund	Major Street Fund	\$ 33,535
	Local Street Fund	115,000
	Fire Fund	75,000
	Nonmajor Governmental Funds	
	Cemetery Operating Fund	21,000
	Band Fund	3,000
	DPW Park Maintenance Fund	130,772
	Parks and Recreation Fund	46,000
	Equipment Replacement Fund	<u>8,000</u>
		\$ 432,307
Sewer Fund	Nonmajor Governmental Funds	
	Equipment Replacement Fund	22,490
Nonmajor Governmental Funds		
Flood Mitigation HGMP Fund	General Fund	29
Flood Mitigation FMAP Fund	General Fund	23
Street Improvement Fund	General Fund	9,062
	Nonmajor Governmental Funds	
Cemetery Perpetual Care Fund	Cemetery Operating Fund	<u>1,529</u>
		<u>10,643</u>
	Total	<u>\$ 465,440</u>

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

NOTES TO FINANCIAL STATEMENTS

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The City manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City obtains its other insurance coverage through a commercial insurance company.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended June 30, 2005 were as follows:

<i>Valuation Division</i>	<i>Employer Contribution Rate</i>	<i>Employee Contribution Rate</i>
General - Non-Union	8.48%	4.70%
Police - Non-Union	9.46%	4.80%
General - Union	5.58%	4.70%
Clerical - Union	8.70%	4.70%
Police - POAM	7.49%	4.80%

Annual Pension Costs – For year ended December 31, 2004, the City's annual pension cost of \$88,867 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of June 30, follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual pension cost	\$ 88,867	\$ 45,550	\$ 20,390
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Post Employment Benefits:

In addition to the pension benefits described above, the City has a policy of paying the health insurance of all department heads upon retirement that had obtained twenty years of service. This benefit is payable until death. Currently, there are three retirees eligible for and receiving this benefit. The City is using a pay-as-you-go method of funding this benefit.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for inventory – This reserve was created to indicate that the portion of fund balance represented by inventory is not available for appropriation and expenditure.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

Specific designations on fund equity include:

Designated for accumulated sick leave – This designation was created to indicate funds set aside to cover payment of accumulated sick leave.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 13: COMPONENT UNITS REPORTING

A condensed statement of net assets for each of the discretely presented component units is shown below. The statement of activities is presented in the government-wide financial statements.

	<i>Downtown Development Authority</i>	<i>Economic Development Corporation</i>	<i>Total</i>
Assets:			
Current and other assets	\$ 68,280	\$ 96,146	\$ 164,426
Capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>68,280</u>	<u>96,146</u>	<u>164,426</u>
Liabilities:			
Other liabilities	<u>-</u>	<u>3,735</u>	<u>3,735</u>
Total liabilities	<u>-</u>	<u>3,735</u>	<u>3,735</u>
Net assets:			
Unrestricted	<u>\$ 68,280</u>	<u>\$ 92,411</u>	<u>\$ 160,691</u>

NOTE 14: PRIOR PERIOD ADJUSTMENT

The governmental activities beginning net assets were restated as follows:

	<i>Governmental Activities</i>
Net assets, beginning of year, as previously stated	\$ 4,721,915
Fund balance of DDA Revolving Loan Fund at 6/30/04, which was changed from a Trust Fund to a Special Revenue Fund	32,977
Personal property taxes written off from prior years	(16,471)
Reclassification of deferred revenue in DDA Revolving Loan Fund at 6/30/04 to recognize as revenue	<u>9,339</u>
Net assets, beginning of year, as restated	<u>\$ 4,747,760</u>

The component units beginning net assets were restated as follows:

	<i>Component Units</i>
Net assets, beginning of year, as previously stated	\$ 96,367
Capital assets as of 6/30/04	<u>118,000</u>
Net assets, beginning of year, as restated	<u>\$ 214,367</u>

REQUIRED SUPPLEMENTAL INFORMATION

**SCHEDULE OF PENSION PLAN
FUNDING PROGRESS**

Year Ended June 30, 2005

<i>Actuarial Valuation Date</i>	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>
Actuarial Value of Assets	\$ 3,666,073	\$ 3,525,381	\$ 3,345,726
Actuarial Accrued Liability (AAL)	4,323,504	3,925,038	3,569,065
Unfunded AAL (UAAL)	657,431	399,657	223,339
Funded Ratio	85%	90%	94%
Covered Payroll	918,331	914,279	860,018
UAAL as a percentage of covered payroll	72%	44%	26%

CITY OF VASSAR

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Property taxes	\$ 870,368	\$ 866,309	\$ 866,309	\$ -
Licenses and permits	16,500	10,677	10,677	-
Federal grants	1,000	13,700	13,700	-
State grants	384,788	378,322	378,322	-
Contributions from other units	4,732	5,232	5,232	-
Charges for services	319,123	362,935	362,935	-
Fines and forfeits	35,000	21,746	21,746	-
Interest and rents	15,400	20,086	20,086	-
Other revenue	99,600	130,968	130,968	-
Total revenues	1,746,511	1,809,975	1,809,975	-
Expenditures:				
Current				
General government	475,757	499,514	499,514	-
Public safety	544,368	572,949	572,949	-
Public works	263,497	239,319	239,319	-
Health and welfare	22,584	22,584	22,584	-
Community and economic development	1,300	3,619	3,619	-
Recreation and culture	-	25,000	25,000	-
Other	32,802	24,425	24,425	-
Capital outlay	51,137	231,508	231,508	-
Debt service				
Principal	-	38,523	38,523	-
Interest and fees	-	3,037	3,037	-
Total expenditures	1,391,445	1,660,478	1,660,478	-
Excess (deficiency) of revenues over expenditures	355,066	149,497	149,497	-
Other financing sources (uses):				
Proceeds from loans	-	162,800	162,800	-
Transfers in	-	9,114	9,114	-
Transfers out	(363,267)	(432,307)	(432,307)	-
Total other financing sources (uses)	(363,267)	(260,393)	(260,393)	-
Net change in fund balance	(8,201)	(110,896)	(110,896)	-
Fund balance, beginning of year	672,420	672,420	672,420	-
Fund balance, end of year	\$ 664,219	\$ 561,524	\$ 561,524	\$ -

CITY OF VASSAR

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
State grants	\$ 139,000	\$ 158,959	\$ 158,958	\$ (1)
Contributions from other units	42,269	48,073	48,073	-
Interest and rents	3,640	938	938	-
Other revenue	-	22,384	22,384	-
Total revenues	184,909	230,354	230,353	(1)
Expenditures:				
Current				
Public works	200,913	191,525	191,525	-
Capital outlay	1,500	33,200	33,200	-
Total expenditures	202,413	224,725	224,725	-
Excess (deficiency) of revenues over expenditures	(17,504)	5,629	5,628	(1)
Other financing sources (uses):				
Transfers in	33,535	33,535	33,535	-
Transfers out	(15,000)	-	-	-
Total other financing sources (uses)	18,535	33,535	33,535	-
Net change in fund balance	1,031	39,164	39,163	(1)
Fund balance, beginning of year	94,146	94,146	94,146	-
Fund balance, end of year	\$ 95,177	\$ 133,310	\$ 133,309	\$ (1)

CITY OF VASSAR

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
State grants	\$ 53,000	\$ 60,187	\$ 60,187	\$ -
Contributions from other units	21,136	23,918	23,918	-
Interest and rents	5,200	7,414	7,414	-
Other revenue	-	778	778	-
Total revenues	79,336	92,297	92,297	-
Expenditures:				
Current				
Public works	186,672	219,135	219,135	-
Capital outlay	10,000	126,493	126,493	-
Total expenditures	196,672	345,628	345,628	-
Excess (deficiency) of revenues over expenditures	(117,336)	(253,331)	(253,331)	-
Other financing sources:				
Transfers in	50,000	115,000	115,000	-
Total other financing sources	50,000	115,000	115,000	-
Net change in fund balance	(67,336)	(138,331)	(138,331)	-
Fund balance, beginning of year	456,842	456,842	456,842	-
Fund balance, end of year	\$ 389,506	\$ 318,511	\$ 318,511	\$ -

CITY OF VASSAR

SPECIAL REVENUE FUND – FIRE FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Federal grants	\$ -	\$ 38,300	\$ 38,300	\$ -
Contributions from other units	95,000	113,467	108,746	(4,721)
Charges for services	50	31	31	-
Interest and rents	1,298	1,358	6,080	4,722
Other revenue	200	1,043	1,043	-
Total revenues	96,548	154,199	154,200	1
Expenditures:				
Current				
Public safety	113,967	101,354	101,355	1
Capital outlay	56,022	239,229	239,229	-
Debt service				
Interest and fees	-	2,355	2,355	-
Total expenditures	169,989	342,938	342,939	1
Excess (deficiency) of revenues over expenditures	(73,441)	(188,739)	(188,739)	-
Other financing sources:				
Proceeds from loans	-	111,700	111,700	-
Transfers in	75,000	75,000	75,000	-
Total other financing sources	75,000	186,700	186,700	-
Net change in fund balance	1,559	(2,039)	(2,039)	-
Fund balance, beginning of year	136,862	136,862	136,862	-
Fund balance, end of year	\$ 138,421	\$ 134,823	\$ 134,823	\$ -

OTHER SUPPLEMENTAL INFORMATION

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2005

Revenues:

Current taxes:

Property taxes	\$ 829,035
Penalties and interest on taxes	9,431
Administration fees	26,029
Payment in lieu of taxes	1,814
	<u>866,309</u>

Licenses and permits:

Business licenses and permits	2,985
CATV franchise fees	7,692
	<u>10,677</u>

Federal grants:

Police	13,700
	<u>13,700</u>

State grants:

Liquor license fees	1,746
State revenue sharing - sales tax	375,135
Police grant	1,441
	<u>378,322</u>

Contribution from other units:

Bullard Sanford Memorial Library - administration charges	5,232
	<u>5,232</u>

Charges for services:

Equipment rent	175,770
Refuse collection fees	95,665
Ambulance	22,806
Police services and reports	1,475
Other	17,919
Charges to other funds	49,300
	<u>362,935</u>

Fines and forfeitures:

Ordinance fines	21,746
	<u>21,746</u>

Interest and rents:

Interest	14,086
Rents	6,000
	<u>20,086</u>

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF REVENUES, CONTINUED

Year Ended June 30, 2005

Other revenue:

Sale of fixed assets	\$ 7,515
Reimbursements	65,687
Loan repayments	15,793
Other	<u>41,973</u>
	<u>130,968</u>
Total revenues	<u>1,809,975</u>

Other financing sources:

Proceeds from loans	162,800
Transfers from other funds	<u>9,114</u>
	<u>171,914</u>
Total revenues and other financing sources	<u><u>\$ 1,981,889</u></u>

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2005

Expenditures:

General Government:

Mayor and Council:

Personnel	\$ 2,600
Printing and publishing	6,728
Other	817
	<u>10,145</u>

Manager:

Personnel	61,516
Fringe benefits	24,944
Supplies	396
Dues and subscriptions	40
Conference and travel	4,778
	<u>91,674</u>

Clerk:

Personnel	49,255
Fringe benefits	9,755
Supplies	259
Conference and travel	1,625
	<u>60,894</u>

Audit:

Contracted services	9,600
	<u>9,600</u>

Information Technology:

Contracted services	12,869
Repairs and maintenance	7,200
	<u>20,069</u>

Treasurer:

Personnel	69,772
Fringe benefits	26,341
Contracted services	1,975
Dues and subscriptions	230
Conference and travel	601
	<u>98,919</u>

Assessor:

Personnel	280
Contracted services	9,400
Printing and publishing	238
Other	390
	<u>10,308</u>

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2005

Expenditures (continued):

General Government (continued):

Elections:

Supplies	\$ 2,041
Contracted services	2,354
	<u>4,395</u>

Buildings and Grounds:

Personnel	67,477
Fringe benefits	12,921
Supplies	14,592
Contracted services	11,696
Communication	7,995
Dues and subscriptions	4,469
Conference and travel	76
Utilities	16,418
Repairs and maintenance	15,292
Equipment rental	3,950
Other	6
	<u>154,892</u>

Attorney:

Contracted services	34,998
	<u>34,998</u>

Community Promotion and Marketing:

Supplies	2,120
Contracted services	1,500
	<u>3,620</u>

Total general government	<u>499,514</u>
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Public Safety:

Police:

Personnel	374,957
Fringe benefits	144,332
Supplies	20,025
Contracted services	3,429
Communication	4,701
Conference and travel	4,781
Insurance	7,952
Repairs and maintenance	11,912
Equipment rental	260
Other	600
	<u>572,949</u>

Total public safety	<u>572,949</u>
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CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2005

Expenditures (continued):

Public Works:

Department of Public Works:

Personnel	\$ 23,164
Fringe benefits	4,619
Supplies	19,434
Contracted services	8,512
Repairs and maintenance	14,958
Equipment rental	2,370
	<u>73,057</u>

Sidewalks:

Personnel	1,305
Fringe benefits	27
Supplies	142
Repairs and maintenance	12,684
Equipment rental	2,021
	<u>16,179</u>

Street Lighting:

Utilities	50,140
	<u>50,140</u>

Refuse:

Contracted services	93,201
	<u>93,201</u>

Parking Lot:

Personnel	1,156
Fringe benefits	88
Supplies	385
Utilities	2,976
Equipment rental	2,137
	<u>6,742</u>

Total public works	<u>239,319</u>
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Community and Economic Development:

Economic Development:

Personnel	948
Fringe benefits	55
Contracted services	1,511
Equipment rental	683
Other	422
	<u>3,619</u>

Total community and economic development	<u>3,619</u>
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CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2005

Expenditures (continued):

Health and Welfare:

Ambulance:

Contracted services	\$ 22,584
	<u>22,584</u>
Total health and welfare	<u>22,584</u>

Recreation and Culture:

Historical Program:

Other	25,000
	<u>25,000</u>
Total recreation and culture	<u>25,000</u>

Other:

Insurance and bonds	13,437
Fringe benefits	1,236
Tax tribunal refunds	9,752
	<u>24,425</u>
Total other	<u>24,425</u>

Capital Outlay:

General government	11,400
Public safety	8,500
Public works	196,861
Community and economic development	14,747
	<u>231,508</u>
Total capital outlay	<u>231,508</u>

Debt Service:

Principal	38,523
Interest and fees	3,037
	<u>41,560</u>
Total debt service	<u>41,560</u>

Total expenditures	<u>1,660,478</u>
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Other Financing Uses:

Transfers to other funds	432,307
	<u>432,307</u>
Total expenditures and other financing uses	<u>\$ 2,092,785</u>

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2005

	<i>Special Revenue Funds</i>			
	<i>Highway Maintenance Fund</i>	<i>Cemetery Operating Fund</i>	<i>Band Fund</i>	<i>DPW Park Maintenance Fund</i>
Assets:				
Cash and cash equivalents	\$ (4,856)	\$ 20,315	\$ 7,515	\$ 767
Accounts receivable	-	2,588	-	67
Notes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other governmental units	6,513	-	-	-
Due from other funds	-	2,079	-	-
Prepaid expenditures	-	102	-	244
Total assets	<u>\$ 1,657</u>	<u>\$ 25,084</u>	<u>\$ 7,515</u>	<u>\$ 1,078</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved for:				
Prepaid expenditures	-	102	-	244
Nonexpendable cemetery principal	-	-	-	-
Unreserved:				
Special revenue funds	<u>1,657</u>	<u>24,982</u>	<u>7,515</u>	<u>834</u>
Total fund balances	<u>1,657</u>	<u>25,084</u>	<u>7,515</u>	<u>1,078</u>
Total liabilities and fund balances	<u>\$ 1,657</u>	<u>\$ 25,084</u>	<u>\$ 7,515</u>	<u>\$ 1,078</u>

<i>Special Revenue Funds</i>						<i>Permanent Fund</i>	<i>Total Nonmajor Governmental Funds</i>
<i>Parks and Recreation Fund</i>	<i>Street Lighting Fund</i>	<i>Equipment Replacement Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Flood Mitigation HMGP Fund</i>	<i>DDA Loan Revolving Fund</i>	<i>Cemetery Perpetual Care Fund</i>	
\$ 19,797	\$ 2,091	\$ 37,162	\$ 460	\$ 1,198	\$ 24,266	\$ 114,496	\$ 223,211
-	-	-	-	-	-	600	3,255
-	-	-	-	-	19,672	-	19,672
-	-	-	-	-	-	1,110	1,110
-	-	-	-	-	-	-	6,513
-	-	-	-	-	-	-	2,079
-	-	-	-	-	-	-	346
<u>\$ 19,797</u>	<u>\$ 2,091</u>	<u>\$ 37,162</u>	<u>\$ 460</u>	<u>\$ 1,198</u>	<u>\$ 43,938</u>	<u>\$ 116,206</u>	<u>\$ 256,186</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 636	\$ -	\$ 636
-	-	-	-	1,198	-	2,079	3,277
-	-	-	-	-	19,672	-	19,672
-	-	-	-	1,198	20,308	2,079	23,585
-	-	-	-	-	-	-	346
-	-	-	-	-	-	114,127	114,127
19,797	2,091	37,162	460	-	23,630	-	118,128
19,797	2,091	37,162	460	-	23,630	114,127	232,601
<u>\$ 19,797</u>	<u>\$ 2,091</u>	<u>\$ 37,162</u>	<u>\$ 460</u>	<u>\$ 1,198</u>	<u>\$ 43,938</u>	<u>\$ 116,206</u>	<u>\$ 256,186</u>

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	<i>Special Revenue Funds</i>			
	<i>Highway Maintenance Fund</i>	<i>Cemetery Operating Fund</i>	<i>Band Fund</i>	<i>DPW Park Maintenance Fund</i>
Revenues:				
State grants	\$ 40,579	\$ -	\$ -	\$ -
Charges for services	-	16,873	-	771
Fines and forfeits	-	-	-	-
Interest and rents	11	258	77	16,085
Other revenue	-	11,210	35	415
Total revenues	<u>40,590</u>	<u>28,341</u>	<u>112</u>	<u>17,271</u>
Expenditures:				
Current				
General government	-	43,895	-	-
Public safety	-	-	-	-
Public works	41,189	-	-	-
Community and economic development	-	-	-	-
Recreation and culture	-	-	1,196	142,445
Capital outlay	-	-	-	5,280
Total expenditures	<u>41,189</u>	<u>43,895</u>	<u>1,196</u>	<u>147,725</u>
Excess (deficiency) of revenues over expenditures	<u>(599)</u>	<u>(15,554)</u>	<u>(1,084)</u>	<u>(130,454)</u>
Other financing sources (uses):				
Transfers in	-	22,529	3,000	130,772
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>22,529</u>	<u>3,000</u>	<u>130,772</u>
Net change in fund balance	(599)	6,975	1,916	318
Fund balances, beginning of year	<u>2,256</u>	<u>18,109</u>	<u>5,599</u>	<u>760</u>
Fund balances, end of year	<u>\$ 1,657</u>	<u>\$ 25,084</u>	<u>\$ 7,515</u>	<u>\$ 1,078</u>

continued

<i>Special Revenue Funds</i>						
<i>Parks and Recreation Fund</i>	<i>Street Lighting Fund</i>	<i>Equipment Replacement Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Flood Mitigation HMGP Fund</i>	<i>Flood Mitigation FMAP Fund</i>	<i>Subtotal Nonmajor Governmental Funds</i>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,579
24,628	-	-	-	-	-	42,272
-	-	-	3,428	-	-	3,428
69	64	443	11	29	-	17,047
39,801	5,904	4,375	-	-	-	61,740
64,498	5,968	4,818	3,439	29	-	165,066
-	-	33,594	-	-	-	77,489
-	-	-	3,740	-	-	3,740
-	6,006	-	-	-	-	47,195
-	-	-	-	-	-	-
97,275	-	-	-	-	-	240,916
14,535	-	-	-	-	-	19,815
111,810	6,006	33,594	3,740	-	-	389,155
(47,312)	(38)	(28,776)	(301)	29	-	(224,089)
46,000	-	30,490	-	-	-	232,791
-	-	-	-	(29)	(23)	(52)
46,000	-	30,490	-	(29)	(23)	232,739
(1,312)	(38)	1,714	(301)	-	(23)	8,650
21,109	2,129	35,448	761	-	23	86,194
\$ 19,797	\$ 2,091	\$ 37,162	\$ 460	\$ -	\$ -	\$ 94,844

continued

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended June 30, 2005

	<i>Special Revenue Fund</i>	<i>Debt Service Fund</i>	<i>Permanent Fund</i>	<i>Total Nonmajor Governmental Funds</i>
	<i>DDA Loan Revolving Fund</i>	<i>Street Improvement Fund</i>	<i>Cemetery Perpetual Care Fund</i>	
Revenues:				
State grants	\$ -	\$ -	\$ -	\$ 40,579
Charges for services	-	-	-	42,272
Fines and forfeits	-	-	-	3,428
Interest and rents	985	-	2,245	20,277
Other revenue	1,888	-	2,500	66,128
Total revenues	2,873	-	4,745	172,684
Expenditures:				
Current				
General government	-	-	-	77,489
Public safety	-	-	-	3,740
Public works	-	-	-	47,195
Community and economic development	12,220	-	-	12,220
Recreation and culture	-	-	-	240,916
Capital outlay	-	-	-	19,815
Total expenditures	12,220	-	-	401,375
Excess (deficiency) of revenues over expenditures	(9,347)	-	4,745	(228,691)
Other financing sources (uses):				
Transfers in	-	-	-	232,791
Transfers out	-	(9,062)	(1,529)	(10,643)
Total other financing sources (uses)	-	(9,062)	(1,529)	222,148
Net change in fund balance	(9,347)	(9,062)	3,216	(6,543)
Fund balances, beginning of year	32,977	9,062	110,911	239,144
Fund balances, end of year	\$ 23,630	\$ -	\$ 114,127	\$ 232,601

CITY OF VASSAR

FIDUCIARY FUNDS – TRUST FUNDS

COMBINING STATEMENT OF NET ASSETS

June 30, 2005

	<i>Fred Lapratt Memorial Fund</i>	<i>Police Pride Fund</i>	<i>Local Government Education Fund</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	\$ 2,531	\$ 174	\$ 274	\$ 2,979
Total assets	<u>\$ 2,531</u>	<u>\$ 174</u>	<u>\$ 274</u>	<u>\$ 2,979</u>
Net Assets:				
Held in trust	<u>2,531</u>	<u>174</u>	<u>274</u>	<u>2,979</u>
Total net assets	<u>\$ 2,531</u>	<u>\$ 174</u>	<u>\$ 274</u>	<u>\$ 2,979</u>

CITY OF VASSAR

FIDUCIARY FUNDS – TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN NETS ASSETS

Year Ended June 30, 2005

	<i>Fred Lapratt Memorial Fund</i>	<i>Police Pride Fund</i>	<i>Local Government Education Fund</i>	<i>Total</i>
Additions:				
Investment income	\$ 32	\$ 26	\$ 3	\$ 61
Contributions	-	1,050	-	1,050
Contributions from General Fund	-	500	-	500
Total additions	32	1,576	3	1,611
Deductions:				
Supplies	-	3,994	-	3,994
Capital outlay	-	1,000	-	1,000
Total deductions	-	4,994	-	4,994
Net increase (decrease)	32	(3,418)	3	(3,383)
Net assets held in trust, beginning of year	2,499	3,592	271	6,362
Net assets held in trust, end of year	<u>\$ 2,531</u>	<u>\$ 174</u>	<u>\$ 274</u>	<u>\$ 2,979</u>

CITY OF VASSAR

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2005

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deductions</i>	<i>Ending Balance</i>
Payroll Withholding Fund				
Assets:				
Cash and cash equivalents	\$ 6,511	\$ 1,894,178	\$ 1,883,767	\$ 16,922
Accounts receivable	48	-	-	48
Total assets	<u>\$ 6,559</u>	<u>\$ 1,894,178</u>	<u>\$ 1,883,767</u>	<u>\$ 16,970</u>
Liabilities:				
Accounts payable	<u>\$ 6,559</u>	<u>\$ 1,894,178</u>	<u>\$ 1,883,767</u>	<u>\$ 16,970</u>
Tax Fund				
Assets:				
Cash and cash equivalents	<u>\$ 474</u>	<u>\$ 1,182,140</u>	<u>\$ 1,182,140</u>	<u>\$ 474</u>
Liabilities:				
Accounts payable	\$ -	\$ 168	\$ 168	\$ -
Due to other funds	-	11,704	11,704	-
Due to other governmental units	474	1,170,268	1,170,268	474
Total liabilities	<u>\$ 474</u>	<u>\$ 1,182,140</u>	<u>\$ 1,182,140</u>	<u>\$ 474</u>
Total Agency Funds				
Assets:				
Cash and cash equivalents	\$ 6,985	\$ 3,076,318	\$ 3,065,907	\$ 17,396
Accounts receivable	48	-	-	48
Total assets	<u>\$ 7,033</u>	<u>\$ 3,076,318</u>	<u>\$ 3,065,907</u>	<u>\$ 17,444</u>
Liabilities:				
Accounts payable	\$ 6,559	\$ 1,894,346	\$ 1,883,935	\$ 16,970
Due to other funds	-	11,704	11,704	-
Due to other governmental units	474	1,170,268	1,170,268	474
Total liabilities	<u>\$ 7,033</u>	<u>\$ 3,076,318</u>	<u>\$ 3,065,907</u>	<u>\$ 17,444</u>

CITY OF VASSAR

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2005

RURAL DEVELOPMENT LOAN - FIRE TRUCK

Issued dated September 20, 2004 in the amount of \$ 111,700

Less: Principal paid in prior years -
Principal paid in current year -

Balance payable at June 30, 2005 \$ 111,700

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Rate</u></i>	<i><u>Principal due</u></i> <i><u>September 1</u></i>	<i><u>Interest due</u></i> <i><u>September 1</u></i>	<i><u>Interest due</u></i> <i><u>March 1</u></i>	<i><u>Total</u></i>
2006	4.75%	\$ 6,000	\$ 2,653	\$ 2,510	\$ 11,163
2007	4.75%	7,000	2,510	2,344	11,854
2008	4.75%	7,000	2,344	2,178	11,522
2009	4.75%	7,000	2,178	2,012	11,190
2010	4.75%	7,000	2,012	1,845	10,857
2011	4.75%	7,000	1,845	1,679	10,524
2012	4.75%	7,000	1,679	1,513	10,192
2013	4.75%	7,000	1,513	1,347	9,860
2014	4.75%	8,000	1,347	1,157	10,504
2015	4.75%	8,000	1,157	967	10,124
2016	4.75%	8,000	967	777	9,744
2017	4.75%	8,000	777	587	9,364
2018	4.75%	8,000	587	397	8,984
2019	4.75%	8,000	397	207	8,604
2020	4.75%	8,700	-	-	8,700
		<u>\$ 111,700</u>	<u>\$ 21,966</u>	<u>\$ 19,520</u>	<u>\$ 153,186</u>

Note: The Fire Fund is obligated for this loan.

CITY OF VASSAR

GOVERNMENTAL ACTIVITIES SCHEDULE OF INDEBTEDNESS

June 30, 2005

INSTALLMENT PURCHASE AGREEMENT - STREET SWEEPER

Issued dated October 28, 2004 in the amount of \$ 162,800

Less:	Principal paid in prior years	-
	Principal paid in current year	<u>-</u>

Balance payable at June 30, 2005	<u>\$ 162,800</u>
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Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Rate</u></i>	<i><u>Principal due</u></i>	<i><u>Interest due</u></i>	<i><u>Total</u></i>
2006	3.30%	\$ 24,945	\$ 5,454	\$ 30,399
2007	3.30%	25,780	4,619	30,399
2008	3.30%	26,644	3,755	30,399
2009	3.30%	27,537	2,862	30,399
2010	3.30%	28,459	1,940	30,399
2011	3.30%	<u>29,435</u>	<u>965</u>	<u>30,400</u>
		<u>\$ 162,800</u>	<u>\$ 19,595</u>	<u>\$ 182,395</u>

Note: The General Fund is obligated for this loan.

CITY OF VASSAR

BUSINESS-TYPE ACTIVITIES **SCHEDULE OF INDEBTEDNESS**

June 30, 2005

1998 SERIES - WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE REFUNDING BOND

Issued dated August 13, 1998 in the amount of \$ 2,775,000

Less: Principal paid in prior years (840,000)
 Principal paid in current year (160,000)

Balance payable at June 30, 2005 \$ 1,775,000

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Rate</u></i>	<i><u>Principal due</u></i>	<i><u>Interest due</u></i> <i><u>10/1 and 4/1</u></i>	<i><u>Total</u></i>
2006	4.600%	\$ 160,000	\$ 88,193	\$ 248,193
2007	4.600%	175,000	80,832	255,832
2008	4.700%	170,000	72,783	242,783
2009	4.800%	170,000	64,792	234,792
2010	4.900%	180,000	56,633	236,633
2011	5.125%	50,000	47,812	97,812
2012	5.125%	50,000	45,250	95,250
2013	5.125%	50,000	42,688	92,688
2014	5.125%	50,000	40,125	90,125
2015	5.125%	50,000	37,562	87,562
2016	5.125%	50,000	35,000	85,000
2017	5.125%	45,000	32,438	77,438
2018	5.125%	45,000	30,131	75,131
2019	5.250%	45,000	27,825	72,825
2020	5.250%	45,000	25,462	70,462
2021	5.250%	45,000	23,100	68,100
2022	5.250%	70,000	20,738	90,738
2023	5.250%	65,000	17,062	82,062
2024	5.250%	65,000	13,650	78,650
2025	5.250%	65,000	10,238	75,238
2026	5.250%	65,000	6,825	71,825
2027	5.250%	<u>65,000</u>	<u>3,412</u>	<u>68,412</u>
		<u>\$ 1,775,000</u>	<u>\$ 822,551</u>	<u>\$ 2,597,551</u>

Note: The Sewer Fund is obligated for 56.3964% and the Water Fund is obligated for 43.6036% of this debt.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Vassar, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar, as of and for the year ended June 30, 2005, which collectively comprise the City of Vassar's basic financial statements and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Vassar's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vassar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

September 15, 2005

**BERTHIAUME
& COMPANY**

Certified Public Accountants



60 Harrow Lane
Saginaw, Michigan 48603

(989) 791-1555
Fax (989) 791-1992

MANAGEMENT LETTER

To the Honorable Mayor and City Council
City of Vassar, Michigan

We have completed our audit of the financial statements of the City of Vassar for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Vassar taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination. If there is a need to discuss the above comments further, please contact us at your convenience.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

September 15, 2005